

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ISO-00 OPIC-12 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 DRC-01

PA-04 PRS-01 USIA-15 /198 W
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R 250645Z APR 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 6240

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

C O N F I D E N T I A L TEHRAN 3255

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: ENERGE: TRANSCO, ASHLAND AND AMERICAN EXPORT REFINERY
PROJECT

REF: A) TEHRAN 2913 B) TEHRAN 2612

1. SUMMARY: GAS NEEDS FOR SECONDARY RECOVERY AND DOWNWARD
REVISION OF OIL PRODUCTION TARGET FROM 8TO 7 MMB/D CAUSED DEMISE
OF TRANSCO PROJECT. SHELL U.S.A. HAS ENTERED AMERICAN EXPORT RE-
FINERY PROJECT AND OFFERED NIOC A MARKETING JOINT VENTURE IN TEN
NORTHEASTERN STATES. U.S. ANTI-TRUST LAWS APPARENTLY WOULD RE-
QUIRE THAT NIOC CHOOSE BETWEEN ASHLAND AND JOINT VENTURE WITH
SHELL. END SUMMARY.

2. AMBASSADOR CALLED ON DR. PARVIZ MINA APRIL 23 TO INQUIRE AS

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TO REASONS FOR CANCELLATION OF TRANSCO PROJECT AND STATUS OF

ASHLAND DEAL AND AMERICAN EXPORT REFINERY PROJECT. DR. MINA EXPLAINED THAT SHELL U.S.A. HAS ENTERED U.S. EXPORT REFINERY GROUP, AND HAS OFFERED NIOC A JOINT VENTURE IN MARKETING IN TEN NORTHEASTERN STATES(SIX NEW ENGLAND STATES PLUS NEW YORK, NEW JERSEY, DELAWARE AND PENNSYLVANIA). CLARK OIL HAS DROPPED OUT OF VENTURE AND ONE OR TWO OF THE OTHERS MAY DO SO, BUT DR. MINA BELIEVES THERE WILL BE AT LEAST FOUR AMERICAN PARTNERS. ABOUT 200,000 B/D FROM THE 500,000 B/D REFINERY'S PRODUCTION WOULD BE MARKETED BY THE SHELL/NIOC JOINT VENTURE, AND THE REMAINDER BY THE SMALLER COMPANIES. SINCE ASHLAND DEAL ALSO IN NEW YORK STATE, NIOC ASKED NEW YORK LAW FIRM CLEARY, GOTTLIEB, STEIN AND HAMILTON FOR OPINION ON WHETHER U.S. ANTI-TRUST LEGISLATION BARRED NIOC FROM DOING BOTH ASHLAND AND SHELL PROJECTS. CLEARY, GOTTLIEB ADVISED NIOC THAT IT WOULD INDEED HAVE TO CHOOSE BETWEEN THEM. NIOC PRESENTLY STUDYING PROFITABILITY AND PRESTIGE OF BOTH VENTURES. DR. MINA ADDED THAT AMERICAN REFINERY GROUP HAD JUST COMPLETED THREE DAYS OF TALKS IN TEHRAN, THAT THE TALKS WENT SMOOTHLY AND THAT NIOC RATHER EXPECTS A MAY 1 ANNOUNCEMENT OF COMMITMENT BY ALL PARTIES TO GO AHEAD.

3. COMMENT: THERE APPEARS TO BE SOME POLITICS IN THIS DECISION, WITH THE EGHBAL-MINA SIDE OF NIOC PUSHING THE EXPORT REFINERY AND DR. REZA FALLAH PUSHING ASHLAND. ONE USUALLY RELIABLE SOURCE TELLS US FALLAH MADE SOME TELLING POINTS WITH SHAH TO EFFECT THAT ASHLAND PACKAGE IS MORE PROFITABLE AND THAT NIOC WOULD BE WISER TO BEGIN OVERSEAS MARKETING WITH SMALLER, MORE MANAGEABLE DEAL. ANOTHER SOURCE IN NIOC CAUTIONED US THAT IT WOULD BE PREMATURE TO CONCLUDE THAT ASHLAND DEAL IS DEAD.

4. CONCERNING TRANSCO, MINA EXPLAINED THAT NIOC AND CONSORTIUM HAD LONG ENGAGED IN RUNNING BATTLE OVER SECONDARY RECOVERY, AND THAT IT HAD BECOME CLEAR THAT IT WAS TIME TO MAKE DECISIONS ON MERITS AND MEANS OF SECONDARY RECOVERY. THUS LAST YEAR THE CONSORTIUM HIRED CONSULTANTS D.R. MCCORD AND CORELABS (BOTH U.S.) TO PERFORM RESERVOIR STUDIES AND MAKE RECOMMENDATIONS, WHILE NIOC HIRED TERRAMAR (U.S.) TO DO THE SAME FOR FOUR MAJOR FIELDS. MCCORD AND CORELABS HAVE NOT YET SUBMITTED FINAL STUDY, BUT TERRAMAR HAS. ITS STUDY, BASED ON COMPUTER MODELLING OF THE STRUCTURE AND NATURE OF THE RESERVOIRS OF FOUR FIELDS, INDICATED THAT SECONDARY RECOVERY IS A MUST AND THAT GAS INJECTION IS BY FAR THE PREFERRED CONFIDENTIAL

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METHOD. WATER INJECTION, ACCORDING TO TERRAMAR, MIGHT EVEN HARM SOME RESERVOIRS. TERRAMAR RECOMMENDED GAS INJECTION BEGIN ASAP IN THE FOUR FIELDS IT STUDIED AND CONCLUDED THAT IF BY GAS INJECTION PRESENT RESERVOIR PRESSURE CAN BE MAINTAINED, PROVEN RESERVES IN THE FOUR FIELDS WILL RISE FROM 22.7 BILLION TO 31.7 BILLION BARRELS. RESTORATION OF ORIGINAL RESERVOIR PRESSURE WOULD RAISE RESERVES TO 36 BILLION. MARUN FIELD ALONE WOULD GAIN SIX BILLION BARRELS IN RESERVES THROUGH GAS INJECTION. TERRAMAR CLAIMED.

5. DR. MINA SAID NEW CRUDE PRODUCTION TARGET (SEE REF B) FOR AGREEMENT AREA WILL BE SEVEN MMB/D, NOT RPT NOT EIGHT MMB/D. THIS WILL LIMIT TOTAL ASSOCIATED GAS PRODUCTION TO SOME 5.3 BILLION STANDARD CUBIC FEET PER DAY. SUBTRACTION FROM THIS FIGURE OF QUANTITY OF GAS COMMITTED TO (A) OSCO OPERATIONAL NEEDS (B) NEEDS OF ABADAN REFINERY (C) IGAT (D) DOMESTIC DISTRIBUTION IN AHWAZ AND (E) PETROCHEMICAL PLANTS ALREADY OPERATING OR UNDER CONSTRUCTION, LEAVES ONLY 1.9 BILLION SCF/D. TO THIS CAN BE ADDED 2.3 BILLION SCF/D FROM OTHER SOURCES (DOME GAS FROM CERTAIN FIELDS) FOR A TOTAL OF 4.2 BILLION SCF/D AVAILABLE GAS. SECONDARY RECOVERY NEEDS FOR THE FOUR FIELDS ALONE WILL AMOUNT TO BETWEEN 5 AND 7 BILLION SCF/D. TRANSCO NEEDED OVER 700 MMSCF/D FOR 20 YEARS. NIOC SIMPLY DID NOT FEEL IT COULD SPARE THE GAS, AND THUS CANCELLED THE PROJECT. DR. MINA ADDED THAT IN FUTURE NIOC WILL PROBABLY BE ABLE TO GIVE TRANSCO GAS FROM KALINGAS' C-STRUCTURE OFFSHORE BUSHEHR, IF TRANSCO WANTS IT.

6. COMMENT: TERRAMAR RESULTS ARE CONTROVERSIAL IN A TECHNICAL SENSE, AS THEY DEPEND ON CERTAIN ASSUMPTIONS WHOSE VALIDITY MANY RESERVOIR ENGINEERS DOUBT. POINT, HOWEVER, IS THAT DECISION MUST BE MADE, THAT TERRAMAR HAS BUTTRESSED OPINIONS LONG HELD IN NIOC, AND THAT NIOC THEREFORE WILL DECIDE WHAT IT HAS LONG WANTED TO DECIDE. IN FACT, AS REPORTED PREVIOUSLY, NIOC HAS ALREADY INSTRUCTED OSCO TO BEGIN SOME GAS-INJECTION PROJECTIONS. REMAINING QUESTIONS ARE (A) WILL RICH GAS OR DRY GAS BE REINJECTED AND (B) IF THE LATTER, WILL THE GAS LIQUIDS BE EXPORTED OR USED HERE AS PETROCHEMICAL FEED-STOCKS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, PETROLEUM PRODUCTION, GAS PRODUCTION, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEHRAN03255
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740097-0815
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740413/aaaaalei.tel
Line Count: 144
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) TEHRAN 2913 B) TEHRAN 2612
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by kelleyw0>; APPROVED <26 MAR 2003 by BoyleJA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGE: TRANSCO, ASHLAND AND AMERICAN EXPORT REFINERY PROJECT
TAGS: ENRG, IR, TRANSCO ENERGY COMPANY, SHELL OIL CO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005